BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING
(PROPOSAL SIX)

Docket No. RM2021-9

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE
INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES
IN ANALYTICAL PRINCIPLES (PROPOSAL SIX)
(September 28, 2021)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the

Commission initiate a rulemaking proceeding to consider a proposal to change

analytical principles relating to the Postal Service's periodic reports. The proposal,

relating to a requested disaggregation of modeled metered mail costs into machinable

and nonmachinable components for use as workshare benchmarks, is labeled Proposal

Six and is discussed in detail in the attached text.

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Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Nabeel R. Cheema
Chief Counsel, Pricing & Product Support

Eric P. Koetting

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475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1137
(202) 277-6333
eric.p.koetting@usps.gov
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Proposal Six - FCM Presort Letters and Cards Mail Processing Cost Model Modifications

Objective:

   The objective of this proposal is to modify the First-Class Mail presort letters and cards mail processing cost model filed in the Annual Compliance Report (ACR) to disaggregate the costs of machinable metered letters and nonmachinable metered letters.

Background:

   To estimate the mail processing costs avoided due to mailer workshare activities for First-Class Mail presort letters and cards (subsequently referred to simply as "letters"), the Postal Service annually produces the First-Class Mail letters mail processing cost model, last filed in USPS-FY20-10 (Docket No. ACR2020). Within this model, the typical mail processing flow of First-Class Mail letters is modeled by rate category using mail characteristics data to measure the avoided costs for each workshare discount.

   In Docket No. R2021-2, the Postal Service replaced the single price for First-Class Mail presort categories with separate prices for nonmachinable 5-Digit letters, nonmachinable 3-Digit letters, nonmachinable MADC letters, nonautomation machinable AADC letters, and nonautomation machinable MAADC letters. This rate structure was introduced to "incentivize greater presortation by mailers, increase pricing flexibility, and better align pricing structures across classes." (Docket No. R2021-2, United States Postal Service Notice of Market-Dominant Price Change, May 28, 2021, at 9).

In Order No. 5937, the Commission accepted the changes to the Mail Classification Schedule (MCS) for nonautomation machinable letters and nonautomation nonmachinable letters, but disagreed with the Postal Service's use of metered mail letters as the benchmark for nonautomation machinable letters. The Commission also disagreed with the Postal Service's position that the nonmachinable MADC letter price is not a workshare discount. Accordingly, the Commission directed that the Postal Service develop a methodology to disaggregate metered mail into the machinable and nonmachinable components for use as benchmarks. Order No. 5937 (July 19, 2021) at 82. This proposal is responsive to the Commission directive to initiate a rulemaking docket addressing this issue within 90 days.

Proposal / Rationale:

Proposal Six would revise the First-Class Mail letters cost model to disaggregate metered mail by machinability status -- machinable and nonmachinable. The proposed changes are presented below.

Each year in the ACR, the Postal Service develops ACR folder 26 to measure the mail processing costs for specific mail categories, including metered mail letters. The source data for these mail processing costs come from the In-Office Cost (IOCS) system materials filed in ACR folder 37. The mail processing costs of metered mail letters are used as a benchmark for First-Class Mail automation MAADC letters. The mail processing unit cost estimate for metered mail letters in ACR folder 26 has historically included costs for both machinable and nonmachinable metered mail. IOCS does not have sufficient information to develop separate mail processing cost estimates for machinable metered mail and nonmachinable metered mail letters. Even if such

information were available from IOCS, the small population of nonmachinable metered mail would prohibit reliable estimates.

Where more detailed cost estimates are needed but data limitations exist, the mail processing cost models are used to disaggregate costs between price categories. The mail processing models can estimate disaggregated costs by price category because they contain processing mail flows through all workshared activities for each subpopulation, such as presort rate (MAADC, AADC, 5-Digit) or machinability (machinable, nonmachinable). Costs are then assigned to each activity using wage rates, processing productivities, and "piggyback" factors to allocate indirect costs. The subpopulation costs are first weight-averaged by volume and then further refined by benchmarking to the appropriate IOCS derived mail processing unit cost estimate from ACR folder 26. The benchmarking is produced using the CRA adjustment factor, as described by the following equation:

$$CRAAdjustmentFactor = \frac{IOCSCost}{ModelUnitCost}$$

The same methodology that is used to disaggregate IOCS-derived mail processing unit costs for First-Class presorted letter costs by rate category is used to disaggregate metered mail letter costs by machinability in this proposal.

Mechanically, the First-Class Mail workbook included in USPS-FY20-10 has been modified as presented in file USPS-FY20-10 FCM Letters Prop 6.xlsx, electronically attached to this petition. New tabs, and cells in existing tabs, responsive to this proposal have been highlighted for easy identification. Specifically, tabs have been added to present the disaggregated volumes of metered mail by machinability

("BMM_Volume"), the processing model of nonmachinable metered mail, ("BMM_NONMACH_MODEL"), and the modeled costs of nonmachinable metered mail ("BMM_NONMACH_COST"). The corresponding model and cost of machinable metered mail is presented on tabs "BMM MODEL" and "BMM COST". The machinable and nonmachinable metered mail modeled costs are weighted to calculate the BMM CRA adjustment factor in table 2A, and CRA-adjusted costs are calculated in rows 52 and 53 respectively, in the tab 'PRESORT LETTER SUM' of the Excel file.

Impact:

The impact of the changes described in this proposal are shown in Tables 1 and 2 below. In Table 2, note that the avoided costs presented in the first and second rows come directly from the Docket No. R2021-2 rate case materials, and can be found in folder PRC-LR-R2021-2-1, file "PRC_CAPCALC-FCM-R2021-2.xlsx', tab "FCM Worksharing". The avoided costs figures in the last three rows are all derived from new cost estimates for benchmark and workshare categories. Further details regarding Table 2 can be found in the SUMMARY tab of the attached Excel file.

Table 1: Disaggregated machinable metered letters and nonmachinable metered letters mail processing unit costs

Price Category	Model Unit Cost (Cents)	CRA Adjusted Unit Cost (Cents)	WS Related Fixed Unit Cost (Cents)	Total WS Related Unit Cost (Cents)	Non-WS Related Fixed Unit Cost (Cents)	Total Mail Proc Unit Cost (Cents)
Machinable metered letters	6.140	11.303	1.820	13.123	0.055	13.178
Nonmachinable metered letters	23.362	43.004	1.820	44.824	0.055	44.879

Source: Table 3, tab 'PRESORT LETTER SUM', USPS-FY20-10 FCM Letters Prop 6.xlsx

Table 2: Avoided costs using current (ACR2020) benchmark vs. proposed benchmarks

Type of Worksharing	Current Benchmark	Avoided Costs - ACR2020 ($)
Automation Mixed AADC Letters	Metered Letters	$0.052
Nonautomation -- Mach Mixed AADC	Metered Letters	$0.042
Type of Worksharing	Proposed Benchmark	Avoided Costs - Proposed ($)
Automation Mixed AADC Letters	Machinable Metered Letters	$0.051
Nonautomation -- Mach Mixed AADC	Machinable Metered Letters	$0.040
Nonautomation -- Nonmach Mixed ADC	Nonmachinable Metered Letters	$0.101

Source: Docket No. R2021-2; PRC-LR-R2021-2-1; file PRC_CAPCALC-FCM-R2021-2.xlsx; tab FCM Worksharing, cells G9 and G13 and Table A; USPS-FY20-10 FCM Letters Prop 6.xlsx, tab 'SUMMARY'